FARMERS' NEWSLETTER
Soybeans

October 81/S-19

Bumper Crop, Sagging Prices

This year's bumper crop and weak prices are forcing some tough marketing decisions.

While production costs have edged higher, soybean prices at the farm declined steadily from $7.60 in April to $6.29 in mid-September, and have weakened further since. Season average prices for the marketing year that began on September 1 are likely to range from $5.50 to $7.00. Behind those weak prices...

• U.S. soybean production is forecast at 2.11 billion bushels, 18 percent above last year's drought-reduced crop. Although wet weather delayed plantings and reduced yields in the key producing States of Indiana and Ohio, record or near-record yields are currently forecast in Iowa, Kansas, Missouri, Nebraska, North Dakota, and Tennessee. Overall, prospects point to the second largest crop on record.

• Domestic demand for soybeans and products should be up from last season, but probably not as high as in 1979/80. Soybean meal use will probably increase as poultry production continues to expand and hog producers respond to improved feeding margins. Use of soybean oil should also rise a little because of population growth and an expected improvement in economic conditions in 1982.

SOYBEAN SUPPLY REMAINS LARGE, THOUGH DOWN FROM EARLIER FORECAST [1]

Year beginning September 1	1979/80	1980/81 Preliminary	1981/82 Projected	Prob. variab. ([2])
	Million bushels			
Beginning stocks	174	359	320	
Production	2,268	1,792	2,107	± 75
Total supply	2,442	2,151	2,427	± 75
Crushings	1,123	1,020	1,080	± 30
Exports	875	724	840	± 30
Seed, etc.	68	66	70	
Residual	17	21	17	
Total use	2,083	1,831	2,007	± 50
Ending stocks	359	320	420	± 50
	Dollars per bushel			
Farm price	6.28	7.61	5.50-7.00	
Loan rate	4.50	5.02	5.02	

[1] As of October 13, 1981. [2] Chances are 2 out of 3 that the outcome will fall within the implied range.

• World soybean production could jump 12 percent, with most of the incease here in the United States. Some gains are likely in major exporting countries in the Southern Hemisphere, even though crops there have not yet been planted. World oilseed output might be up by nearly 15 million metric tons to 175 million.

• Export demand for U.S. soybeans and products should show some improvement. Along with lower prices for beans, meal, and oil, a weakening of the dollar against some major foreign

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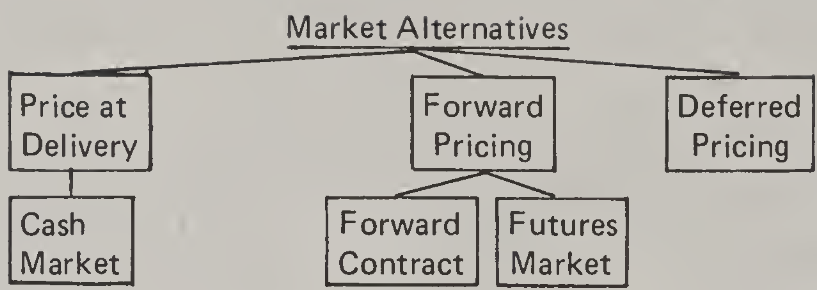
The next soybeans newsletter is scheduled for late December.



currencies is expected in 1982. This would stimulate additional sales of soybeans. Because economic growth will continue sluggish in many importing countries, demand, though improved, will not be as strong as in 1979/80.

The Other Side of the Profit Equation...

While price prospects have deteriorated, variable production costs have continued to climb. Estimates of 1981/82 production costs, released by USDA in August, are summarized in the table on p. 3, and are compared with average production costs for the past two seasons. Biggest gainers from last year were fuel and lubrication, up 24 percent, and fertilizers and lime, both up 18 percent.

Note that while total variable costs including land increased, improved yields this year are tempering that rise so that on a per bushel basis, total costs including land, show a slight decline.

Good Marketing Strategy Essential This Year

Marketing your 1981 soybean crop successfully will depend on how well you gauge the price outlook. With costs of production high again this year, marketing decisions are more important than ever...profits depend on them.

The diagram to the left outlines a number of available marketing alternatives. Keep in mind use of any of these alternatives should be a decision based on specific individual requirements including debt repayment, costs and availability of storage, and tax considerations.

Let's look at the alternatives:

- Sell all or part of the crop at harvest. Remember that sales tend to be large and prices relatively low at that time. The table below shows the percentage of the soybean crop marketed each month over the last 8 years. During that time, more than a third (34 to 46 percent) was marketed during September-November. Also, three season average price lows occurred in those 3 months.

- Forward cash contract part or all of your crop. Cash contracting means fixing an exact amount and price of beans to be delivered at a specified time to your local elevator or buyer.

This option may be attractive if you have a sizable amount of borrowed funds to repay, and are particularly interested in pricing enough of the crop to cover variable costs and land rent.

As an example, suppose there is the

PERCENT OF FARM MARKETINGS OF SOYBEANS BY MONTHS

Crop Year Beginning Sept. 1

	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
1972	3.3	23.0	14.9	12.5	20.3	8.6	6.5	3.3	2.8	2.1	1.5	1.2
1973	3.1	19.0	15.5	7.2	13.8	9.0	7.0	4.7	5.4	5.6	6.3	3.4
1974	3.7	24.0	15.9	7.0	9.6	5.2	6.0	5.0	5.6	6.5	6.7	4.8
1975	4.7	20.1	13.9	6.8	10.7	7.1	6.9	6.1	7.0	6.1	5.6	5.0
1976	8.3	22.4	15.4	7.7	12.3	9.8	8.7	7.2	3.4	1.9	1.2	1.7
1977	3.5	18.4	11.7	8.1	9.1	8.4	13.1	7.7	7.1	4.4	4.0	4.5
1978	6.9	25.1	10.5	6.2	11.3	10.2	6.7	4.5	4.4	6.9	3.5	3.8
1979	5.0	21.7	11.4	7.3	10.4	7.3	6.6	5.3	6.4	6.4	6.9	5.3

opportunity to forward contract beans for harvesttime delivery at \$6.20 a bushel. If...

...total variable costs and land rent equal \$135 per acre, and

...the expected yield is 30 bu./acre,

...to cover total cash costs the percent of the crop to contract would be:

$$\frac{\text{total variable costs and land rent}}{\text{expected yield} \times \text{contract price}}$$

or:

$$\frac{\$135}{30 \times \$6.20} = 73 \text{ percent}$$

A word of caution: Plug your own figures into this equation and if you do decide to sell ahead, make sure your harvest will be sufficient to cover your contracts.

- Store all or part of this year's crop and sell at intervals after harvest. With this option, weigh your storage costs and anticipated returns from delayed sales against what might be earned by selling at harvest and putting the receipts in money markets or other investments earning high interest rates.

Our last soybean newsletter--issued in August--showed how to calculate the monthly cost of storing beans using the Commodity Credit Corporation (CCC) loan program. Write us if you'd like a copy.

- Place a storage hedge in the futures market. Suppose the current cash price is \$6.20 a bushel and you are considering storing your beans until the first week in July. How do you determine if the market is paying you to store?

1) Determine your target price. If in November, the July futures price is \$7.50 and your estimated basis for the first week of July is \$0.25, then the target price is \$7.25 (\$7.50 - 0.25).

2) Determine your asking price: If the cash price is \$6.20 and the monthly storage cost is 12 cents a bushel, your asking price is: \$6.20 + (\$.12 x 9), or \$7.28.

COSTS PER BUSHEL DOWN SLIGHTLY

	1979	1980 U.S. Average	1981
COSTS PER ACRE		Dollars	
Variable.	63.89	72.60	83.14
Seed	9.19	7.82	8.60
Fertilizer.	6.49	8.12	9.60
Lime	1.00	1.22	1.44
Chemicals	12.78	15.05	16.87
Custom operations . . .	2.59	2.74	3.02
All labor	13.67	14.64	16.24
Fuel and lubricants. . .	8.89	12.27	15.19
Repairs.	6.77	7.34	8.31
Interest.	2.51	3.40	3.87
Machinery ownership. . .	32.28	37.80	42.91
Replacement	18.62	20.33	22.78
Interest.	11.00	14.56	16.71
Taxes and insurance . .	2.66	2.91	3.42
General farm overhead . .	8.37	9.12	10.06
Management	10.45	11.95	13.61
Total, excluding land. .	114.99	131.47	149.71
COSTS PER BUSHEL			
Variable	2.00	2.77	2.76
Machinery ownership. . .	1.01	1.44	1.43
General farm overhead . .	.26	.35	.33
Management	.33	.46	.45
Total excluding land . .	3.60	5.02	4.97
Yield per acre, bushels . .	31.9	26.2	30.1

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3) If your target price is less than your asking price, as in this example, the market is not paying you to store.

- Defer pricing. You may want to consider a no-price established (NPE) contract that allows you to sell some of your beans to your local elevator but defer your pricing decision. When a NPE contract is written between the seller and the elevator, all rights and title to the beans pass to the elevator. A major advantage of this option is that it frees the producer from storage costs, including interest.

Examine your cash flow situation closely before you decide on this alternative because payment will not be made until the beans are priced some time in the future.

Payment is determined by the elevator's spot bid the day you price your beans. This method allows you to price your crop when you think prices are most favorable.

Remember, this system does not offer any downside price protection. Also, there is an opportunity cost associated with delaying payment for your crop. This cost varies with interest rates and may be significant at this time.

FARMERS' 900 NEWSLINE

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Coming next month:

November 2	Export Outlook
3	1982 Outlook Conference
4	1982 Outlook Conference
5	1982 Outlook Conference
6,7,8	1982 Outlook Conference
9	Fruit Situation
10,11	Wheat Situation
12	U.S. Crop Report
13,14,15	Cattle on Feed
16	World Agricultural Supply and Demand
17	Milk Production
18	Sheep and Lambs
19	Red Meat Production
20,21,22	Eggs, Chickens & Turkeys
23	Cotton Situation
24	Wool Situation
25,26	Farm News Special
27,28,29	Farm News Special
30	Farmers' Prices

The 60-second news items listed above are put on the line at 4 p.m. Washington time, on the date indicated.

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